

# STATE OF WISCONSIN

SENATE CHAIR  
**MARK MILLER**

317 East, State Capitol  
P.O. Box 7882  
Madison, WI 53707-7882  
Phone: (608) 266-9170



ASSEMBLY CHAIR  
**MARK POCAN**

309 East, State Capitol  
P.O. Box 8952  
Madison, WI 53708-8952  
Phone: (608) 266-8570

## JOINT COMMITTEE ON FINANCE

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Mark Miller  
Representative Mark Pocan

Date: November 16, 2010

Re: SWIB Report to JFC

Attached is a quarterly report listing all expenses that were charged directly to funds managed by the State of Wisconsin Investment Board, pursuant to s. 25.17(13m), Stats.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

MM:MP:jm





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BY: *St. Finance*

November 15, 2010

Senator Mark Miller, Co-Chair  
Joint Committee on Finance  
P.O. Box 7882  
Madison WI 53707-7882

Representative Mark Pocan, Co-Chair  
Joint Committee on Finance  
P.O. Box 8952  
Madison WI 53708-8952

Senator Kathleen Vinehout, Co-Chair  
Joint Committee on Audit  
P.O. Box 7882  
Madison WI 53707-7882

Representative Peter Barca, Co-Chair  
Joint Committee on Audit  
P.O. Box 8952  
Madison WI 53708-8952

Mr. Daniel Schooff, Secretary  
Department of Administration  
101 East Wilson Street  
P.O. Box 7864  
Madison, WI 53707-7864

Dear Senator Miller, Senator Vinehout, Representative Pocan, Representative Barca and Secretary Schooff:

As required by Section 25.17 (13m), I have attached our quarterly report listing all expenses that were charged directly to funds managed by the State of Wisconsin Investment Board (SWIB) during the quarter ending September 30, 2010. In addition to the expenses charged to the funds, the report also contains a comparison of assets managed internally and externally for the past four quarters.

The statutes authorize SWIB to employ special legal or investment counsel in any matter arising from the scope of our investment authority and to employ professionals, contractors or agents to evaluate or operate any property in which SWIB has an interest. SWIB may also contract with external advisers to manage various types of investments. Expenses for these services are directly charged to the current income of the fund for which the services were furnished.

This report lists expenses on an accrual basis – when the costs were incurred rather than paid. Providing the information on an accrual basis gives a better picture of quarter to quarter trends in services that are directly charged to the funds. A negative charge typically indicates an adjustment to expenses accrued in a prior quarter or a refund of expenses that were prepaid and subsequently adjusted.

The following highlights changes from the previous quarter:

- Private equity costs increased approximately \$1.8 million or 8.2% from the prior quarter and were slightly above the average costs for the last four quarters. This is primarily because SWIB made six new private equity investments, which increased costs by \$2.0 million. Reductions in fees for existing private equity investments, however, lowered the overall costs.

Quarterly private equity fees have trended upward over the past few years because of new investments added to the portfolio. Due to the continued depressed real estate market, SWIB has entered into relatively few new real estate investments in the past few years. As a result, real estate costs decreased by approximately \$1.0 million or 10.4% from the prior quarter.

- Overall fees for investment counsel, which include research services and investment consulting costs, were 8.4% less during the third quarter than in the prior quarter. Legal fees, which vary depending on legal work performed during a given quarter, decreased significantly in the second quarter and resulted in a 65.3% drop.

Attachment A lists all expenses by category. Attachment B provides further explanation about the various expenditure categories. Attachment C includes legal expenses that were capitalized at the time of acquisition or directly associated with the ongoing activity of an asset, such as appraisals or bankruptcy costs. Unlike other expenses listed in this report, these expenses are reflected in the value of the asset or are netted against gross returns of the asset, consistent with standard industry practices.

Attachment D shows that Wisconsin Retirement System (WRS) assets managed internally increased from the last quarter. At the end of the third quarter 2010, SWIB was managing \$34.3 billion or 45.6% of assets internally compared to 44.6% at the end of the second quarter and 20.7% at the end of 2007. SWIB was able to reduce overall costs by bringing more assets in-house for management after it received increased staff and budget authority in 2007 and 2008. The agency is preparing to transfer the assets from an external international index fund to internal management, which will increase the assets managed internally to approximately 50%.

CEM Benchmarking, Inc., recently issued a report that compared SWIB's 2009 costs to a custom peer group of 15 large U.S. public pension funds and found SWIB to be a low cost manager compared to its peers. CEM attributed most of the cost savings to SWIB's greater use of internal asset management and lower fees paid to external asset managers for similar assets.

We hope this report gives you a clear picture of external expenditures associated with the trust funds' management. Please contact me, however, if you have any questions or comments about the report.

Sincerely,

  
Keith Bozarth  
Executive Director

Attachments

cc: Members, Joint Committee on Finance  
Members, Joint Committee on Audit  
Robert Lang, Legislative Fiscal Bureau  
Janice Mueller, Legislative Audit Bureau

STATE OF WISCONSIN INVESTMENT BOARD  
Direct Charges to All Funds Under Management - Accrual Basis  
Quarter Ending September 30, 2010

Charge Category	Service Provided	Charges
<b>Custodial and Banking Fees</b>		
BNY Mellon	Master Custody Services	\$159,038
US Bank	State Banking Services	81
<b>Total Custodial and Banking Fees</b>		<b>\$159,119</b>
<b>Legal Fees, Services and Expenses</b>		
Foley & Lardner	Private Markets Investment Transactions	28,495
Quarles & Brady	Litigation & Private Markets Investment Transactions	4,284
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	529
Stafford Rosenbaum, LLP	Securities Litigation	(2,538)
<b>Total Legal Fees, Services and Expenses</b>		<b>\$30,770</b>
<b>Investment Counsel</b>		
Advent Software, Inc.	Research Management System	56,320
Alberdon International	Financial Market Data	1,067
BCA Publications	Global & Domestic Fixed Income Strategy Research	24,999
BioCentury Publications	Biotech Stock News	1,250
Bloomberg, LP	Market, Company, Industry & Benchmark Information	326,409
CanDeal.ca Inc.	Canadian Government Bond Trading Service	1,050
CEM Benchmarking Inc.	Comparative Cost and Investment Performance Analysis	20,000
Charles River Systems, Inc.	Portfolio Management Software	94,382
Cliffwater LLC	Hedge Fund Investment Consulting	155,645
Connexiti LLC	Supply Chain Data	3,750
Council of Institutional Investors	Corporate Governance	7,500
Courtland Partners	Performance Monitor Reporting	71,250
Covenant Review, LLC	Corporate Bond Research	3,750
Credit Sights	Credit Assessments	18,750
Cross Current Research, LLC	Healthcare Sector Research	4,750
Data Broadcasting Corporation - CMS Bond Edge	Pricing Service	12,025
Data Explorers Limited	Securities Lending Analysis	3,315
Davis Mendel & Regenstein, Inc.	Online Investment Reports	11,250
Dow Jones & Co	Company and Industry News Service	10,866
Elsevier Business Intelligence	Prescription Pharmaceutical Industry Data	(1,787)
Ennis, Knupp & Associates	Fiduciary & Governance Consulting	66,250
Factset Data Systems	Financial & Economic Database	100,904
Financial Tools, Inc.	Financial Statement Spreadsheet Software License	324
Fitch Info., Inc.	Credit Rating Service	1,838
FX Alliance LLC	Electronic Platform for Trading Foreign Currencies	1,990
Gartner, Inc.	Tech Sector Specific Research	10,626
Gimme Credit	Credit Research	4,938
Hamilton Lane Advisors, LLC	Private Equity Consulting/Reporting Services	300,000
Haver Analytics	Global Macroeconomic Research	17,049
iMoneyNet, Inc	Money Market Fund Database	11,861
Institutional Investor	Global Fixed Income Institute Membership	11,716

Charge Category	Service Provided	Charges
Investor Responsibility & Support Services, Inc	Securities Class Action Support	8,751
ITG Solutions Network Inc.	Trading Transaction Cost Analysis	18,750
Jefferson Wells International	Risk Advisory Services	1,650
KPA Advisory Services	Investment Organization Research	1,125
Lombard Street Research	Global Economic Analysis	16,263
London Stock Exchange PLC	London Stock Exchange Data	7,365
Market Axess Corporation	Bond and Yield Pricing	1,950
McLagan Partners	Investment Compensation Comparison	9,596
Moody's Analytics, Inc.	Economic, Currency & Bond Analysis	8,306
Morgan Stanley Capital International	Developed Markets Security Data	35,211
Morningstar, Inc.	Benchmark & Performance Data	417
National Bureau of Economic Research Inc.	Economic Conditions and Asset Returns Data	156
National Council of Real Estate Investment Fiduciaries	Real Estate Performance	625
New York Stock Exchange	New York Stock Exchange Data	7,235
Omgeo	Post Trade Settlement Information	4,660
Pivot Inc.	Trade Desk Collaboration Services	3,000
Platts	European Power Markets Research	636
Prequin	Real Estate Online Database	1,080
Property & Portfolio Research	Real Estate Consulting & Electronic Services	27,501
QTI Professional Staffing, Inc	Investment Staff Recruitment Consulting	9,290
Quantitative Services Group LLC	Access to Quantitative Data	32,502
RiskMetrics Group	Volatility and Correlation Data/Proxy Voting Analysis	41,550
Roubini Global Economics, LLC	Macro Research	7,500
Royce Carlton, Inc.	September Board Speaker	10,605
Russell Investment Group	Index Data Feeds	7,500
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
SNL Financial	Customized Analysis of Bank Investments	11,250
Standard & Poor's	Industry & Corporate Research	68,099
StepStone Group LLC	Private Equity Consultant	129,230
Strategic Economic Decisions	Research Reports	6,249
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	70,000
StreetAccount LLC	Tracks Portfolio and Historical Information	1,767
Telsey Advisory Group	Consumer Sector Research	31,251
The Corporate Library	Proxy Voting Research Data	4,875
The Markets.com	Detailed Research Service	5,907
The World Markets Company PLC	Closing Spot and Closing Forward Rates	2,085
Thomson Financial Services	Electronic Research Pricing (Autex, StreetEvents, FirstCall)	100,160
Toronto Stock Exchange	Market Data/Traders	3,365
Trade Web	On-Line Fixed Income Trading Service	7,800
Tradeweb Markets, LLC	Electronic Research Pricing	750
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	113,000
Wolfe Trahan & Co	Transportation and Macro Research	7,500
World Bank Publications	Historical Emerging Market Countries Macroeconomic Data	191
<b>Total Investment Counsel</b>		<b>\$2,195,741</b>
<b>Real Estate Investment Management Services</b>		
Apollo Advisors	Real Estate Management Services	(16,702)
Archstone - Smith Trust	Real Estate Management Services	215,168
Berkshire Property Advisors, LLC	Real Estate Management Services	365,089

Charge Category	Service Provided	Charges
Blackstone Management Partners VI LLC	Real Estate Management Services	562,500
Bristol Group, Inc.	Real Estate Management Services	78,042
BVP Managers, LLC	Real Estate Management Services	387,584
Callahan Capital	Real Estate Management Services	237,727
Capital Trust	Real Estate Management Services	62,886
Centerline Capital Group	Real Estate Management Services	128,560
Cornerstone Real Estate Advisors	Real Estate Management Services	220,680
Essex VFGP	Real Estate Management Services	125,000
Fortress Investment Corp.	Real Estate Management Services	964,593
Goldman Sachs & Co.	Real Estate Management Services	43,770
Guggenheim Structured Real Estate Advisors, LLC	Real Estate Management Services	65,183
Hawkeye Partners LP	Real Estate Management Services	95,524
Heitman Capital Management Corp.	Real Estate Management Services	25,620
Henderson Global Investors (North America) Inc.	Real Estate Management Services	295,935
Hudson Advisors	Real Estate Management Services	322,910
Invesco Realty Advisors, Inc.	Real Estate Management Services	238,144
JP Morgan Investment Management	Real Estate Management Services	887,081
Kensington Realty Advisors	Real Estate Management Services	77,080
Koll Bren Realty Advisors	Real Estate Management Services	16,694
KTR Capital Partners	Real Estate Management Services	556,627
Landmark Realty Advisors	Real Estate Management Services	3,383
Lazard Freres	Real Estate Management Services	85,485
Lowes Structured Real Estate	Real Estate Management Services	102,007
Mesa West Capital LLC	Real Estate Management Services	265,497
MMA Realty Capital	Real Estate Management Services	2,786
Morgan Stanley	Real Estate Management Services	220,060
Northwestern Mutual Life	Real Estate Management Services	6,164
Prudential (senior housing)	Real Estate Management Services	128,862
Rockpoint Group LLC	Real Estate Management Services	226,977
Rockspring Property Investment Managers	Real Estate Management Services	111,624
RREEF	Real Estate Management Services	378,224
Security Capital	Real Estate Management Services	203,693
Sentinel Realty Advisors Corp.	Real Estate Management Services	53,453
Westbrook Real Estate	Real Estate Management Services	751,113
<b>Total Real Estate Investment Management Services*</b>		<b>\$8,495,022</b>
<b>Private Equity Management</b>		
Advent International GPE VI, L.P.	Private Equity Management	196,400
Alchemy Partners	Private Equity Management	85,900
Alta Communications IX, LP	Private Equity Management	173,800
American Securities Opportunities Fund II, L.P.	Private Equity Management	680,400
American Securities Opportunities Fund, LP	Private Equity Management	174,800
American Securities Partners V, L.P.	Private Equity Management	636,400
Ampersand Ltd Partnership	Private Equity Management	91,200
Apollo European Principal Finance Fund, L.P.	Private Equity Management	385,400
Apollo Investment Fund VII, L.P.	Private Equity Management	465,800
Ares Corporate Opportunities Fund II, LP	Private Equity Management	100,700
Ares Corporate Opportunities Fund III, L.P.	Private Equity Management	84,900
Avalon Ventures IX, LP	Private Equity Management	162,500
Avenue Europe Special Situations Fund, L.P.	Private Equity Management	187,500

Charge Category	Service Provided	Charges
Avenue Special Situations Fund V, L.P.	Private Equity Management	281,300
Avenue Special Situations Fund VI, L.P.	Private Equity Management	21,400
Baird Venture Partners	Private Equity Management	72,200
Baird Venture Partners III	Private Equity Management	156,300
BC European Capital	Private Equity Management	59,900
Bear Stearns	Private Equity Management	60,900
Bear Stearns Merchant Capital	Private Equity Management	271,700
Birch Hill Equity II	Private Equity Management	14,500
Blackstone Management Partners V LLC	Private Equity Management	393,200
Boston Millennia	Private Equity Management	94,200
Bridgepoint Europe III A LP	Private Equity Management	221,800
Bridgepoint Europe IV, L.P.	Private Equity Management	372,300
Caltius Partners IV, L.P.	Private Equity Management	250,000
Capital Res Partners IV LP	Private Equity Management	34,700
Capital Resource Lenders III	Private Equity Management	9,500
Carlyle Partners IV, LP	Private Equity Management	62,900
Carlyle Partners V, L.P.	Private Equity Management	289,900
Cerberus Institutional Partners LP	Private Equity Management	375,000
Charterhouse	Private Equity Management	35,100
Charterhouse Capital Partners IX, L.P.	Private Equity Management	420,200
Charterhouse VIII	Private Equity Management	114,600
Clessidra Capital Partners II	Private Equity Management	172,200
Coller International	Private Equity Management	84,900
Coller International V LP	Private Equity Management	187,500
CVC European Equity Partners IV	Private Equity Management	85,500
CVC European Equity Partners Tandem Fund	Private Equity Management	13,400
CVC European Equity Partners V, L.P.	Private Equity Management	390,100
Cypress Advisors, LP	Private Equity Management	24,600
DAG Ventures IV, LP	Private Equity Management	205,900
Doll Technology Invst Fd II LP	Private Equity Management	15,000
Drug Royalty II, S.ar.l.	Private Equity Management	187,000
El Dorado Ventures	Private Equity Management	167,000
EQT V, L.P.	Private Equity Management	181,200
Essex Woodlands Hlth Venture V	Private Equity Management	58,800
FFC Partners II, LP	Private Equity Management	50,700
Fortress Invest Fund II LLC	Private Equity Management	6,800
Fortress Invest Fund IV (Coinvestment Fund A) LP	Private Equity Management	65,800
Fortress Invest Fund IV (Fund A) LP	Private Equity Management	89,100
Fortress RIC	Private Equity Management	16,100
Fortress V	Private Equity Management	199,800
Fortress V Coinvestment	Private Equity Management	70,300
Frazier	Private Equity Management	201,400
Friedman Fleischer & Lowe Capital Partners III, L.P.	Private Equity Management	201,600
Gores Capital Partners II, LP	Private Equity Management	(12,700)
Gores Capital Partners III, L.P.	Private Equity Management	1,408,500
Graphite	Private Equity Management	352,500
Green Equity Partners V	Private Equity Management	389,900
GS Special Opptys Asia Fd LP	Private Equity Management	700
Hamilton Lane Co-Investment Fund II, L.P.	Private Equity Management	125,000



Charge Category	Service Provided	Charges
Harbourvest International	Private Equity Management	106,400
Hellman & Friedman Capital Partners VII, L.P.	Private Equity Management	(1,195,800)
Hellman & Friedman Capital VI	Private Equity Management	281,100
IGP II	Private Equity Management	3,000
Insight Equity II, L.P.	Private Equity Management	214,100
Insight Equity Mezzanine I, L.P.	Private Equity Management	56,300
Kelso Investment VII LP	Private Equity Management	78,300
Kelso VIII	Private Equity Management	375,000
KKR 2006 Fund LP	Private Equity Management	426,700
KKR European Fund III, L.P.	Private Equity Management	291,000
KKR European II	Private Equity Management	155,500
Kohlberg Investors VI, LP	Private Equity Management	248,200
Kohlberg Kravis Roberts & CO	Private Equity Management	56,000
KRG Capital Fund IV - A, L.P.	Private Equity Management	32,500
KRG Capital Fund IV, L.P.	Private Equity Management	162,500
Lake Pacific I Gladson, LLC	Private Equity Management	110,000
Lake Pacific Partners, LLC	Private Equity Management	110,000
Lindsay Goldberg and Bessemer II	Private Equity Management	358,100
Lindsay Goldberg III, LP	Private Equity Management	586,700
Lone Star Fund IV LP	Private Equity Management	5,300
Lone Star Fund VI	Private Equity Management	104,800
Lone Star Fund VII	Private Equity Management	543,800
Mason Wells Partners I, LLC	Private Equity Management	61,400
Mayfield XI LP	Private Equity Management	28,700
Merit Mezzanine Fund V, L.P.	Private Equity Management	146,900
Montreux Equity Partners IV, L.P.	Private Equity Management	131,000
New Mountain Partners III, L.P.	Private Equity Management	463,100
Northwestern Mutual Capital Mezzanine Fund I, L.P.	Private Equity Management	192,200
Oak Investment Partners XII, LP	Private Equity Management	225,000
Oak Investment Partners XIII, LP	Private Equity Management	31,300
OCM Opportunities Fund VII	Private Equity Management	158,500
OCM Opportunities Fund VIIb, L.P.	Private Equity Management	243,300
Old Lane India Opportunities Fund-T, LP	Private Equity Management	90,400
Peninsula Fund IV LP	Private Equity Management	250,000
Peninsula Fund V L.P.	Private Equity Management	248,900
Penninsula Fund	Private Equity Management	56,700
Pomona Capital	Private Equity Management	93,800
Pomona Capital VII, L.P.	Private Equity Management	182,500
Providence Equity Partners VI, LP	Private Equity Management	418,400
Providence TMT Special Situations Fund	Private Equity Management	132,800
Providence TMT Special Situations Fund II	Private Equity Management	6,400
Providence V	Private Equity Management	66,000
Riverstone/Carlyle GE&P IV	Private Equity Management	324,600
SAIF Partners IV, L.P.	Private Equity Management	143,500
Seaport Capital Partners II	Private Equity Management	43,300
Segulah IV, L.P.	Private Equity Management	80,800
SKM Equity Fund III, LP	Private Equity Management	23,600
Sprout	Private Equity Management	1,000
Sterling Group Partners III, L.P.	Private Equity Management	237,500

Charge Category	Service Provided	Charges
TA X	Private Equity Management	75,400
TA XI	Private Equity Management	142,900
TAC 2007, L.P.	Private Equity Management	38,700
TCV VII	Private Equity Management	280,900
Thomas H Lee Manager's V, LLC	Private Equity Management	17,100
Thomas Lee VI	Private Equity Management	265,500
TowerBrook Investors III, L.P.	Private Equity Management	196,400
TPG Partners V, LP	Private Equity Management	86,100
TPG Partners VI, LP	Private Equity Management	544,300
Trident IV, L.P.	Private Equity Management	86,300
Trident V, L.P.	Private Equity Management	281,300
Venture Investors Early Stage Fund IV	Private Equity Management	156,300
Vista Equity Partners Fund III, L.P.	Private Equity Management	162,200
Warburg Pincus Private Equity IX, L.P.	Private Equity Management	436,400
Warburg Pincus Private Equity X, L.P.	Private Equity Management	562,200
Waterland Private Equity Fund IV, C.V.	Private Equity Management	165,200
Wayzata Opportunities Fund II	Private Equity Management	437,500
Windpoint Partners V LP	Private Equity Management	84,500
Windpoint Partners VII, LP	Private Equity Management	148,100
<b>Total Private Equity Management**</b>		<b>\$23,334,300</b>
<b>Commingled Account Public Market Management Fees</b>		
BlackRock Institutional Trust Company N.A.	Quantitative/Enhanced & Index Fund Management	2,154,592
Boston Company, The	Equity Emerging Market Management	1,654,511
Callan Associates Inc.	Fund-of-Funds Small Cap Equity Management	786,776
Capital Guardian Trust Company	Global High Yield Fixed Income Management	557,209
Grantham, Mayo, Van Otterloo	Fixed Income Emerging Market Management	358,629
LSV Asset Management	Quantitative/Enhanced & Index Fund Management	21,629
T. Rowe Price Trust Company	Equity Emerging Market Management	2,303,612
UBS Global Asset Management	Multi-Asset Management	708,970
<b>Total Commingled Account Public Market Management Fees</b>		<b>\$8,545,929</b>
<b>Separate Account Public Market Management Fees</b>		
Aberdeen Asset Management	Global Fixed Income/Emerging Active Management	640,004
Acadian Asset Management	International Equity Active Management	1,508,483
Alliance Bernstein	International Equity Active Management	977,128
American Century Investments	International Equity Active Management	547,589
Brandywine Asset Management	Global Fixed Income Active Management	195,167
Bridgewater Associates	Global Fixed Income Active Management/Inflation Protection	1,166,818
Dodge & Cox	US Credit/Government Bond Management	270,633
EII Realty Services, Inc.	Real Estate Investment Trusts	277,186
Janus Institutional Asset Management	Large Cap Growth Management	84,164
JP Morgan Investment Management	Global Equity Active Management	757,348
Loomis, Sayles & Co.	High Yield Fixed Income Active Management	518,245
LSV Asset Management	Global Equity Active Management	1,401,110
Mellon Transition Management	Transition Management Service	52,304
Morgan Stanley Asset Management	International Equity Active Management	1,106,542
Pyramis Global Advisors Trust Company	International Equity Active Management	992,131
RREEF America LLC	Real Estate Investment Trusts	399,738
Shenkman Capital	High Yield Fixed Income Active Management	327,332

Charge Category	Service Provided	Charges
Standish Mellon Asset Management LLC	Cash Management Service	51,665
Stone Harbor Asset Management	Emerging Market Fixed Income Active Management	549,542
<b>Total Separate Account Public Market Management Fees</b>		<b>\$11,823,128</b>

**Total Quarterly Charges to Funds**

**\$54,584,008**

*\*Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.*

*\*\*Expenses for private equity management fees are estimated and adjusted annually based upon committed capital or assets under management, determined by management contract terms. Total committed capital includes management fees. All capital contributions to the limited partnership must first be returned to the limited partners before any incentive fees are paid to the general partner.*



## **Explanations of Direct Charges**

### **Custodial & Banking Fees**

*Wisconsin Certificate of Deposit Program:* Under a contract with SWIB, Bankers' Bank administers the program under which the State Investment Fund (SIF) purchases certificates of deposit from Wisconsin-based banks and thrifts. Most administrative costs are paid by the participating banks. SWIB's expenses are \$2,500 per quarter to help underwrite other administrative costs, such as insurance that SWIB requires to be purchased.

*BNY Mellon:* Provides master custody services (safekeeping of assets, income collection, valuations and accounting) for public and private domestic and foreign securities in the Wisconsin Retirement System (WRS), the SIF and the smaller funds. In addition, SWIB receives performance measurement and analytical services from BNY Mellon Analytical Solutions through its custodial contract with BNY Mellon, which serves as the official book of record for SWIB's accounting and performance measurement functions. BNY Mellon provides the data and analytical tools used by SWIB for compliance and risk management. Fees for these services are established by contract.

*US Bank:* The State of Wisconsin has contracted with US Bank to be the state's working bank. The fees paid to US Bank by the SIF reflect bank service charges that are not directly applicable to the fund participants. These fees are distributed to the fund participants through the monthly SIF earnings process.

### **Legal Fees, Services and Expenses**

Under authority delegated by the Attorney General, pursuant to s. 25.18 (1) (a) Statutes, SWIB may employ legal counsel for any matters arising out of the scope of its investment authority. This includes legal services relating to bankruptcies, class actions, private markets transactions, fiduciary advice, securities law, investment litigation, and other similar matters. Capitalized fees incurred during the asset acquisition process are reported separately as a charge against the value of the asset. The Attorney General annually reviews and approves a list of law firms to provide investment legal services for SWIB and reviews related legal fees.

### **Investment Counsel**

Current law gives SWIB the authority to employ investment counsel in any matters arising out of the scope of its investment authority. Investment research and services provided include global market, industry, economic and company information, financial and performance analytics, news information, pricing and exchange data, credit ratings, financial modeling, economic forecasting, trading services and a variety of Board consultations. These services enable SWIB to perform due diligence on current and future holdings and assist in monitoring investments.

### **Real Estate Investment Management Services**

SWIB hires real estate advisors to assist with sourcing analysis, due diligence and management of real estate investments. SWIB also invests in funds, typically limited partnerships. Each fund either has a general partner or engages a fund manager with delegated authority to make real estate investments for the fund. Real estate advisory fees are usually based on a percentage of assets under management. Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

### **Private Equity Management Fees**

SWIB invests in private equity funds, typically limited partnerships that in turn make individual private equity investments. Each fund is managed by its general partner or fund manager with delegated authority. Fees are established as a percentage of the capital committed to each fund or partnership. As assets in a fund are sold, the management fees are typically reimbursed from the profits of the fund.

#### **Public Market Active Management Fees**

Within broad guidelines established by SWIB, these managers have been delegated authority to determine strategy and purchase securities in SWIB's name under a separate and distinct account. This relationship is used primarily in the management of international equity and fixed income investments. Fees are typically assessed as a percentage of the market value of assets under management and may include other factors.

BNY Mellon invests the cash from the externally managed portfolios and internally managed global equity and fixed income portfolios that have yet to be invested in stocks or bonds. Due to settlement times around the globe, these funds cannot be effectively managed in the State Investment Fund. The fees are negotiated as part of the custodial contract.

#### **Indexed, Enhanced and Commingled Fees**

SWIB has investments in a number of externally managed funds that seek to replicate the returns of a particular public market index (such as the Russell 1000) or seek to enhance the return from a particular public market index through the use of quantitative models or other strategies. SWIB's investments are commingled with other investors, and the underlying securities are owned in the name of the fund manager. Fees are typically based on a percentage of assets under management and may include other factors, such as performance.

#### **Asset Specific Charges**

Asset specific charges include expenses that are directly associated with the ongoing activity of an asset such as appraisals or bankruptcy costs. Unlike other expenses reflected in this report, these expenses are netted in gross returns of the asset, consistent with standard industry practices.

**STATE OF WISCONSIN INVESTMENT BOARD**  
**Report of Asset Specific Charges and Capitalized Legal Fees - Accrual Basis**  
**Quarter Ending September 30, 2010**

Charge Category	Service Provided	Charges
<b>Legal Fees, Services and Expenses</b>		
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	\$32,496
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	4,016
<b>Total Legal Fees, Services and Expenses</b>		<b><u>\$36,512</u></b>

**Total Asset Specific Charges** **\$36,512**

<b>Capitalized Legal Fees</b>		
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	9,393
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	12,013
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	9,693
Whyte Hirschboek	Private Markets Investment Transactions	<u>20,000</u>

**Total Capitalized Legal Fees** **\$51,098**

This table includes expenses that are capitalized at the time of acquisition or directly associated with the ongoing activity of an asset such as appraisals or bankruptcy costs. Unlike other expenses reflected in this report, these expenses are reflected in the value of the asset or netted in gross returns of the asset, consistent with standard industry practices.





# Wisconsin Retirement System Assets Internal & External Management

ATTACHMENT D

Wisconsin Retirement System (WRS)		12/31/2009		3/31/2010		6/30/2010		9/30/2010	
		Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed		\$30,017	41.2%	\$33,338	44.8%	\$30,812	44.6%	\$34,341	45.6%
Externally Managed Dedicated Accounts		14,332	19.7%	13,395	18.0%	13,476	19.5%	15,321	20.3%
Externally Managed Accounts	Commingled	28,496	39.1%	27,635	37.2%	24,861	36.0%	25,693	34.1%
1. Passive Index Funds		12,530	17.2%	12,646	17.0%	12,025	17.4%	11,549	15.3%
2. Enhanced Index Commingled Funds		5,668	7.8%	4,402	5.9%	2,188	3.2%	2,435	3.2%
3. Limited Partnerships		5,945	8.2%	6,076	8.2%	6,446	9.3%	6,888	9.1%
4. Actively Managed Commingled Accounts		4,353	6.0%	4,511	6.1%	4,203	6.1%	4,821	6.4%
TOTAL WRS Assets		\$72,845	100.0%	\$74,368	100.0%	\$69,150	100.0%	\$75,355	100.0%

